

Business league; credit union assistance. A nonprofit organization formed to maintain the good will and reputation of credit unions in a particular State by making interest free loans to assist credit unions in financial difficulty, with no restrictions placed upon the use of the funds, does not qualify for exemption under section 501(c)(6) of the Code.

Advice has been requested whether the nonprofit organization described below qualifies for exemption from Federal income tax as a business league under section 501(c)(6) of the Internal Revenue Code of 1954.

The organization was formed to maintain the good will and reputation of credit unions in a particular State. Substantially all credit unions in the State are members of the organization. As its sole activity, the organization maintains a fund for assistance to credit unions that have financial difficulty or have become insolvent so that their members will not lose deposits upon liquidation. Interest free loans are made to such credit unions, and no restriction is placed upon their use of these funds. The credit unions are required to repay the organization if they are financially able to do so. The organization's income is from dues paid by the member credit unions. Expenditures are for financial assistance to credit unions and normal operating expenses.

Section 501(c)(6) of the Code provides for the exemption from Federal income tax of business leagues not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations defines a business league as an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. Its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons.

The present organization makes loans to credit unions, both solvent and insolvent, that may be used in their general operations. There is no assurance that loans will be made solely to protect threatened depositors. Credit unions may have financial difficulty without their depositors' accounts being in danger. Thus, the loan activities of the present organization are not solely calculated to achieve the goal of improving the industry's image by protecting depositors. Compare Rev. Rul. 73-452, 1973-2 C.B. 183, and Rev. Rul. 71-155, 1971-1 C.B. 152. On the contrary, the organization may, consistent with its stated policies, permit its money to be loaned on favorable terms to members in a manner that would provide little or no additional security to depositors. Such a loan policy provides a convenience

or economy to members in their business, and is not an exempt activity under 501(c)(6) of the Code and the regulations thereunder. See Rev. Rul. 67-176, 1967-1 C.B. 140. Accordingly, the organization does not qualify for exemption from Federal income tax under section 501(c)(6) of the Code.